

# Life Insurance Corporation of India

## Subscribe

**Price Band: INR 902-949**

### ISSUE SUMMARY

Issue Opens	4-May-22
Issue Closes	9-May-22
Offer Price (INR per share)	902-949
Bid Lot	15 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (bn)	6,325.0
Offer for Sale (No of sh. mn)	221.4
Fresh Issue (No of sh. mn)	-
Post Issue shares o/s (bn)	6,325.0
^*#Issue Size (INR bn)	205.6
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR949)

\*incl. employee reservation portion of 1.6mn shares; Discount of INR45/sh

\*incl. policyholder reservation portion of 22.1mn shares; Discount of INR60/sh  
#Discount of INR45/sh for retail category

### POST ISSUE DETAILS

M.Cap @INR949/sh. (INR tn)	6.0
<b>Shareholding pattern</b>	
Promoters	96.5%
Non-Promoters	3.5%

**Largest life insurer in India:** Life Insurance Corporation of India (LIC) is the largest life insurer in India, with a 62%/61% market share in terms of Gross Written Premium (GWP)/New Business Premium (NBP). It is ranked 5<sup>th</sup> globally by life insurance GWP and 10<sup>th</sup> globally in terms of total assets. It has the biggest AUM of INR40tn as of 9MFY22 – 1.1x entire Indian MF industry AUM and 3.2x total AUM of all private life insurers in India.

**Focus on diversifying product portfolio:** LIC product portfolio is largely dominated by individual policies (70% of total APE as of 9MFY22) of which Participating (PAR) products account for 92%. However the company now plans to focus on non-PAR and ULIP segment to diversify its portfolio. Despite dominance of par products, LIC enjoys large market share in health insurance and annuity products.

**Highly productive agency dominated distribution network:** LIC has the largest individual agent network of 1.3 mn - 6.8x the 2<sup>nd</sup> largest life insurer player in India. These agents account for 96% of LIC's NBP sourcing in the individual product category with highest productivity. In FY21, an LIC agent generated average NBP of INR412,934 vs average NBP of Rs124,892 for median of top five players in India.

**Underpenetrated industry offers huge potential:** India's life insurance penetration stood at just 3.2% in CY20 vs. 7.6%/6.4%/3.4% in Singapore/ S. Korea/Thailand – its Asian peers. The protection gap for India is also the highest at 83% (CY19) amongst APAC. As per Crisil, the GWP/NBP for life insurers is expected to grow at 14-15%/17-18% CAGR over FY21-26, taking penetration level to 3.8% of GDP.

**Financials:** Given the dominance of PAR products, VNB margins stood at 9.3% in 1HFY22, which is lower compared to private players. However rising share of non-par products going ahead could lead to improvement in margins. Post FY21, LIC changed its surplus distribution policy in which 10% of Par surplus and 100% of non-par surplus will be distributed to shareholders vs 95:5 ratio. This has resulted in increased Embedded Value (EV) of INR5.4tn as of 1HFY22.

**Issue Size:** INR206bn IPO consists of entirely OFS by GoI, which would result in latter's stake reducing to 96.5% post-IPO. The market cap post listing would stand at INR6002bn.

**Valuation & View:** LIC with its dominant position is well placed to capture the highly underpenetrated life insurance industry in India. We like its increasing focus on non-par products which could boost its VNB margins. It is valued at 1.1x 1HFY22 EV which is at significant discount to its private listed peers. Hence we suggest investors to **Subscribe** to the IPO.

### Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY19	FY20	FY21	9M FY22
Net Premium (INR mn)	33,99,716	38,24,755	40,53,985	28,53,419
Adj PAT (INR mn)	26,274	27,105	29,741	17,153
VNB (INR mn)	-	-	41,670	15,830
VNB Margin (%)	-	-	9.9	9.3
EV (INR bn)	-	465	956	5,397
Mcap/EV (x)	NA	12.9	6.3	1.1

\*Calculated at the upper price band of INR949; Source: RHP, MOFSL

## Peer Comparison

Exhibit 2: Peer Comparison

Company (9M FY22)	*M.Cap INR Bn	Total Premium INR Bn	Net Worth INR Bn	PAT INR Bn	RoE (%) FY21	EV INR Bn	MCap/EV (x)
LIC	6,002	2,841	81	17	45.7	5,397	1.1
SBI Life#	1,081	413	112	8	15.2	302	3.6
HDFC Life	1,223	315	92	9	17.6	295	4.1
ICICI Prud. Life#	744	258	10	6	11.7	302	2.5

Source: Company RHP, Bloomberg, MOFSL

\*Price Data as on 02<sup>nd</sup> May, 2022

#Bloomberg estimates

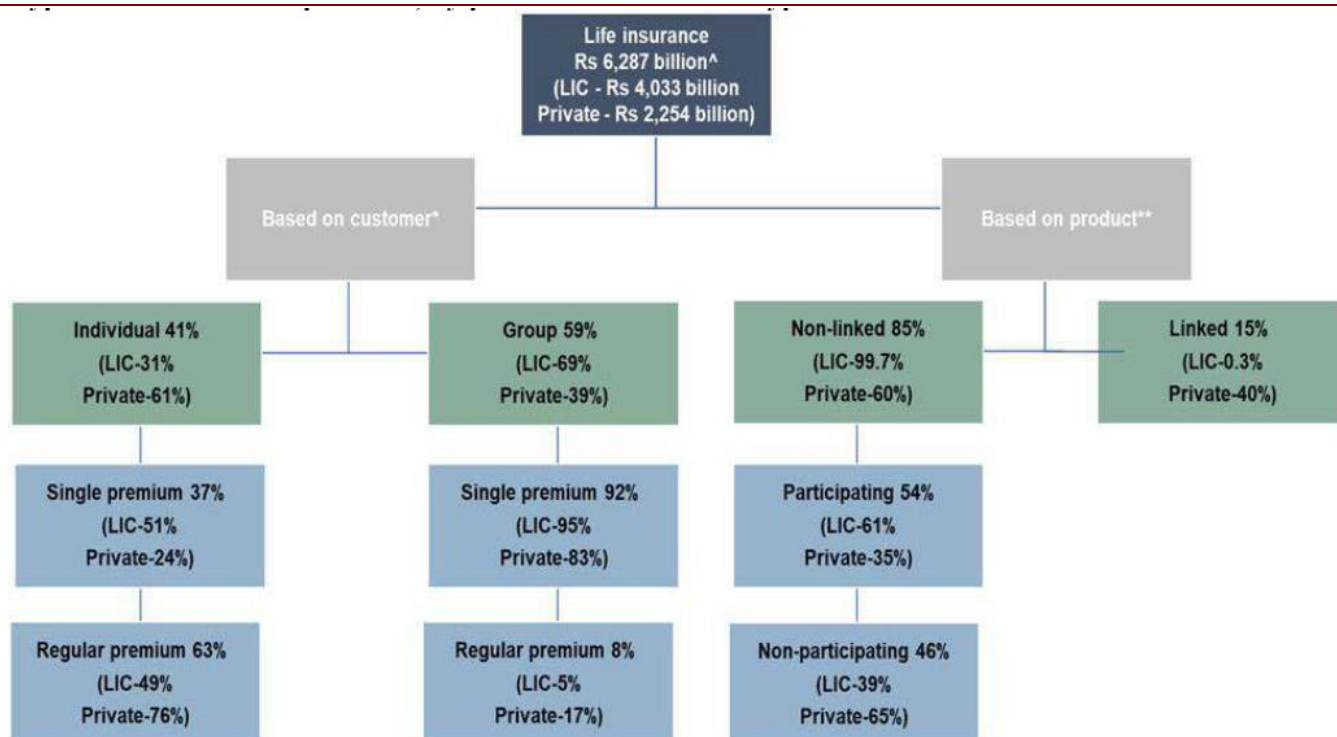
^Calculated at upper price band of INR949

# EV as on sept 21

## About the Company

Incorporated in 1956, LIC was formed by merging and nationalizing 245 private life insurance companies in India. The company has more than 65 years of lineage and is the largest life insurer in India, with a 61.6% market share in terms of premiums (or GWP), a 61.4% market share in terms of New Business Premium (or NBP), 71.8% market share in terms of number of individual policies issued, 88.8% market share in terms of number of group policies issued for the 9M FY22.

Exhibit 3: Types of Life Insurance products, by product and customer type



Source: RHP, MOFS

### Diversified product portfolio with dominance of PAR products

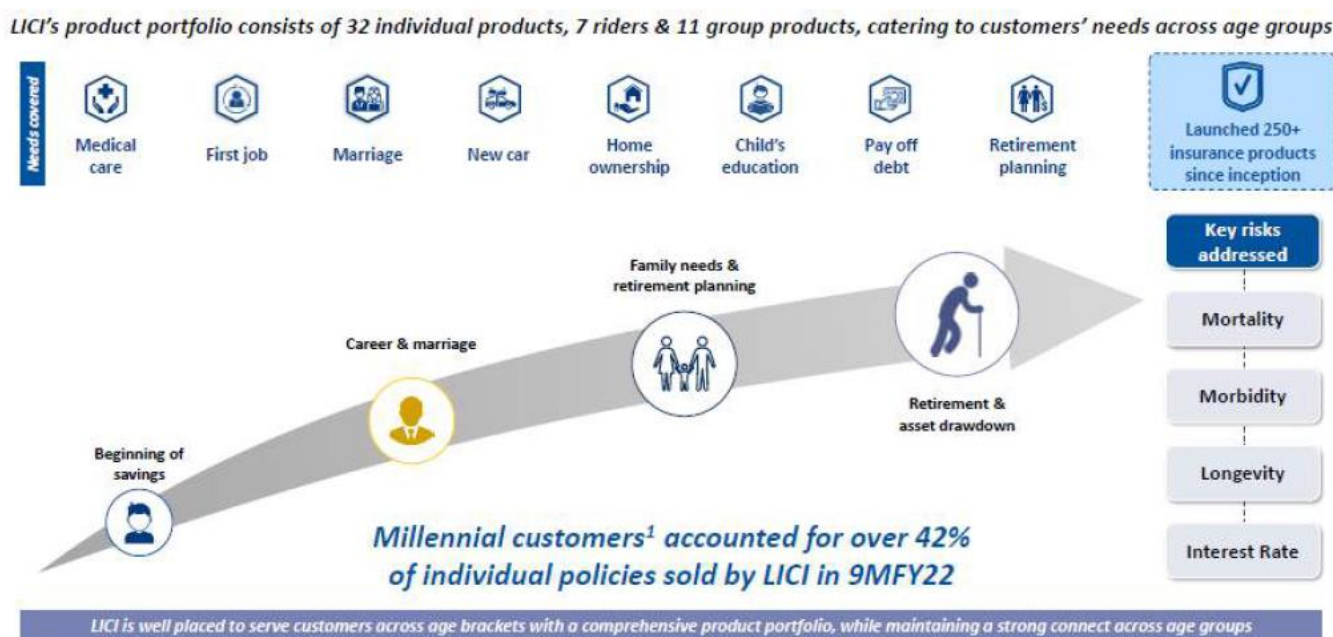
The company has a broad, diversified product portfolio covering various segments across individual products and group products. Individual products comprises of (i)

participating insurance products and (ii) non-participating products, which include (a) savings insurance products; (b) term insurance products; (c) health insurance products; (d) annuity and pension products; and (e) unit linked insurance products. Its individual products include specially designed products for specific segments, such as special products for women and children and Micro Insurance products. While group products comprise (i) group term insurance products, (ii) group savings insurance products; (iii) group savings pension products; and (iv) group annuity products.

The company's individual product portfolio in India comprises 32 individual products (16 participating products and 16 non-participating products) and seven individual riders. Its group product portfolio in India comprises 11 group products.

LIC product portfolio is largely dominated by individual policies (70% of total APE as of 9MFY22) of which Participating (PAR) products account for 92%. However the company now plans to focus on non-PAR and ULIP segment to diversify its portfolio. Despite dominance of par products, LIC enjoys large market share in health insurance and annuity products.

#### Exhibit 4: Diversified product portfolio covering various segments across individual products and group products



Source: RHP, MOFSL

#### Omni-channel distribution network – mainly led by individual agents

LIC's omni-channel distribution platform for individual products currently comprises (i) individual agents, (ii) bancassurance partners, (iii) alternate channels (corporate agents, brokers and insurance marketing firms), (iv) digital sales (through a portal on our Corporation's website), (v) Micro Insurance agents and (vi) Point of Sales Persons-Life Insurance scheme. It has the largest individual agent network among life insurance entities in India, comprising approximately 1.33 million individual agents, 70 bancassurance partners; 215 alternate channel; 2,128 active Micro Insurance agents; and 4,769 Point of Sales Persons-Life Insurance scheme and portal for digital sales as at December 31, 2021, which was 6.8 times the number of individual agents of the second largest life insurer. For 9M FY22 individual agents responsible for sourcing 96.20% of total New Business Premium (NBP) for its individual products in India.

LIC's Business is heavily dependent on the Agents. However group NBP is driven through Direct Business. Following is the table of Individual and group NBP channel mix.

#### Exhibit 5: Omni Channel presence - Individual NBP

Channel Mix % (Individual NBP 9MFY22)	Individual Agents	Corp. Agents Bank	Corp. Agents Others	Direct Business	Web Aggregators	Others
LIC	96.5	2.3	0.1	0.4	0.0	0.7
SBI LIFE	26.4	66.0	2.6	4.9	0.0	0.0
HDFC LIFE	12.6	44.5	4.1	34.1	0.2	4.6
ICICI Prud. LIFE	28.1	45.4	4.0	18.1	0.4	4.1
MAX LIFE	24.5	63.2	1.5	0.0	1.1	9.7
Bajaj Allianz	39.3	36.5	2.0	14.3	2.6	5.2

Source: RHP, MOFSL

#### Exhibit 6: Omni Channel presence - Group NBP

Channel Mix % (Group NBP FY21)	Individual Agents	Corporate Agents - Bank	Corporate Agents - Others	Direct Business	Others
LIC	2.4	0.0	0.0	97.5	0.0
SBI LIFE	1.1	40.7	0.0	57.4	0.8
HDFC LIFE	1.3	14.0	10.7	72.1	2.0
ICICI Prud. LIFE	0.2	13.7	4.8	79.8	1.4
MAX LIFE	0.0	71.8	6.7	20.0	1.4
Bajaj Allianz	2.4	0.0	0.0	97.5	0.0

Source: RHP, MOFS

#### Largest asset manager

LIC is the largest asset manager in India with managed assets worth INR 36.8trn as of FY21. LIC's AUM as on FY21 is more than three times higher than total AUM of all private life insurers in India; is approximately 16.6 times more than the AUM of the second-largest player in the Indian life insurance industry in terms of AUM (SBI Life had the second largest AUM of approximately INR 2.2trn) and is also 1.2 times the AUM of the entire mutual fund industry in India, which had AUM of approximately INR 31.4trn. Further, the AUM of LIC as of March 2021 was approximately 19% of India's GDP for Fiscal 2021. LIC was the largest domestic institutional investor in the Indian financial sector. LIC's investments in listed equity had carrying/market value of ~INR 8trn, which represented around 4% of the total market capitalization of NSE as at the same date.

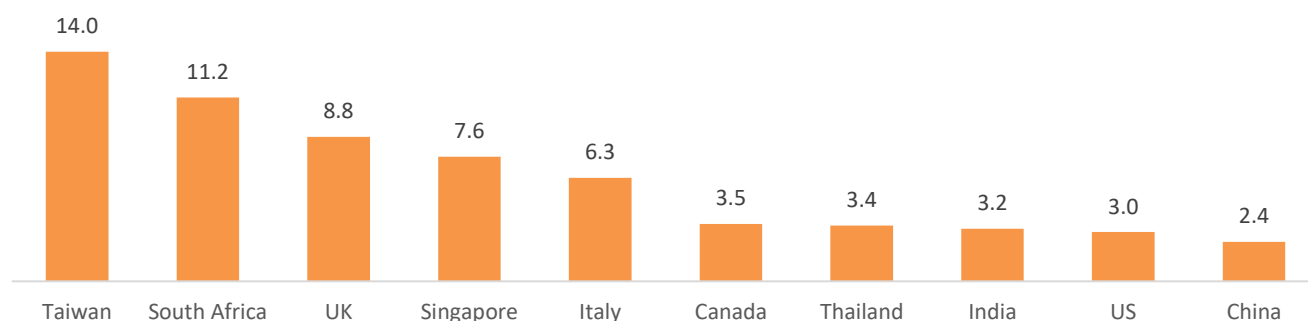
#### Life Insurance Industry landscape

India's life insurance penetration stood at just 3.2% in CY20 vs. 7.6%/6.4%/3.4% in Singapore/ S. Korea/Thailand – its Asian peers. The protection gap for India was 83% in 2019, the highest amongst all countries in Asia-Pacific, as per the Swiss Re report "Closing Asia's Mortality Protection Gap – July 2020".

The combination of (i) high GDP growth (expected to grow by 9.2% in Fiscal 2022 and 7.8% for Fiscal 2023); (ii) India being the third largest economy in the world in terms of purchasing power parity; (iii) an estimated increase of households in India in middle income category from 41mn in FY12 to 181mn in FY30, translating into a CAGR of 9% over this time period; (iv) rapid urbanization, in which the urban population is expected to increase from 34.9% of the total population in 2020 to 37.4% by 2025; and (v) the focus on financial inclusion and increasing preference towards financial savings with increasing financial literacy, are all key factors to propel the growth of Indian life

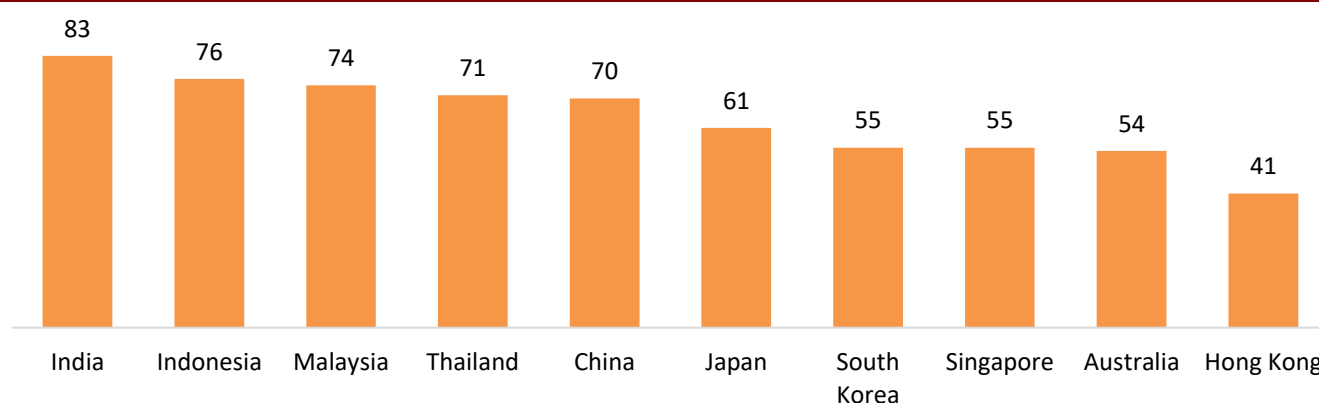
insurance sector. As per Crisil, the GWP/NBP for life insurers is expected to grow at 14-15%/17-18% CAGR over FY21-26, taking penetration level to 3.8% of GDP.

#### Exhibit 7: Life Insurance Industry Penetration for different Economies as on CY20 (%)



Source: RHP, MOFSL

#### Exhibit 8: Protection Gap as on FY19 (%)



Source: RHP, MOFSL

LIC is ranked fifth globally by life insurance GWP and 10th globally in terms of total assets in FY21 as per Crisil report. It was recognized as the third strongest and 10th most valuable global insurance brand as per the "Insurance 100 2021 report" released by Brand Finance. The brand 'LIC' was also recognized by WPP Kantar as the second most valuable brand in India in the report "BrandZ™ Top 75 Most Valuable Indian Brands" for 2018, 2019 and 2020.

#### Exhibit 9: Global Positioning of LIC (USD Mn) 2020

	Life Insurance Premium	Total Assests
Allianz SE	88,853	12,72,014
Ping An Insurance	74,134	13,80,851
China Life Insurance	69,651	6,16,291
Assicurazioni Generali S.p.A Italy	58,268	6,53,652
Life Insurance Corporation of India*	56,405	5,07,333
Nippon Life Insurance Japan	39,838	7,05,002
AXA S.A France	37,829	9,65,747
Japan Post Insurance Japan	34,223	6,33,845
Dai-ichi Life Holdings Japan	27,024	5,59,853
NorthWestern Mutual US	15,720	3,08,767
Metlife Inc. US	14,200	7,95,146
People's Insurance Company of China	13,665	1,82,038

\*Data as of FY21; Source: RHP, MOFSL

## **Risk and concerns**

- Adverse variation in persistency metrics could have a material effect on LIC's financial performance
- Change in regulations could adversely impact business
- LIC is highly dependent on individual agents. If LIC is unable to retain and recruit individual agents on a timely basis and at reasonable cost, there could be a material adverse effect on its operations.
- If actual claims experienced and other parameters are different from the assumptions used in pricing its products and setting reserves for its products, it could have a material adverse effect on LIC business.
- A significant proportion of LIC's total new business premiums are generated by participating products and single premium products, and any significant regulatory changes or market developments that adversely affect sales of such products could have a material adverse effect on its business.

## LIC vs Peers

Exhibit 10: Market Share

Market Share – 9M FY22 (%)	Total Premium	New Business Premium	Renewal Premium	No. Policies - Individual	No. Policies - Group
LIC	62	61	62	72	89
SBI Life	9	9	9	7	1
HDFC Life	7	8	6	4	0
ICICI Prud. Life	6	5	6	3	4
Max Life	3	3	4	2	0
Bajaj Allianz	2	3	2	2	0
Others	12	11	13	8	6
<b>Private Players Total</b>	<b>38</b>	<b>39</b>	<b>38</b>	<b>26</b>	<b>11</b>

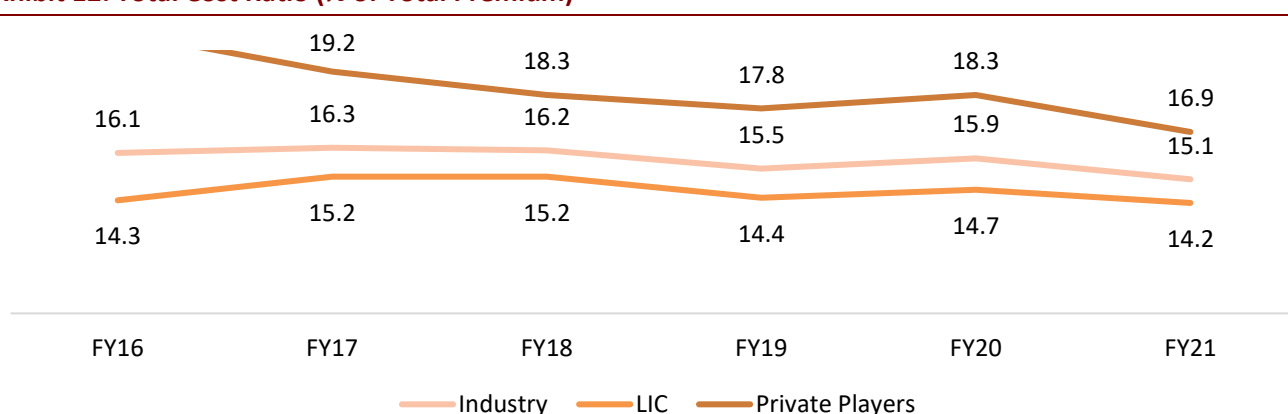
\*Data as of FY21; Source: RHP, MOFSL

Exhibit 11: Persistency ratio

Persistency Ratio (%)	13th		25th		37th		49th		61th	
	9M FY22	FY21	9M FY22	FY21	9M FY22	FY21	9M FY22	FY21	9M FY22	FY21
LIC	77	79	72	70	68	67	65	63	62	59
SBI Life	84	88	77	79	72	74	68	68	50	62
HDFC Life	87	92	77	84	67	75	63	70	53	54
ICICI Prud. Life	85	87	76	76	67	69	59	65	53	60
Max Life	83	84	67	68	60	60	56	56	50	53
Bajaj Allianz	81	80	71	65	71	65	60	54	47	42
<b>Median of top 5 Pvt. Players</b>	<b>84</b>	<b>87</b>	<b>76</b>	<b>67</b>	<b>76</b>	<b>67</b>	<b>60</b>	<b>65</b>	<b>50</b>	<b>54</b>

Source: RHP, MOFSL

Exhibit 12: Total Cost Ratio (% of Total Premium)

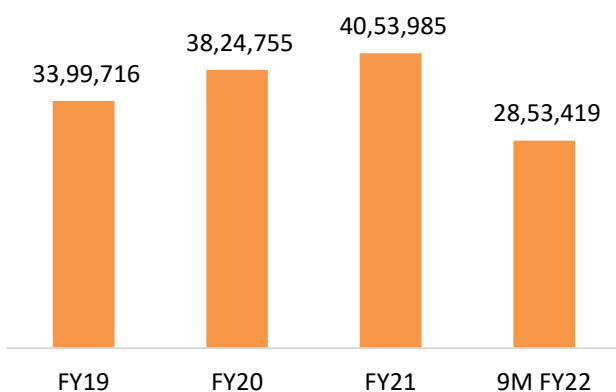


Source: RHP, MOFSL



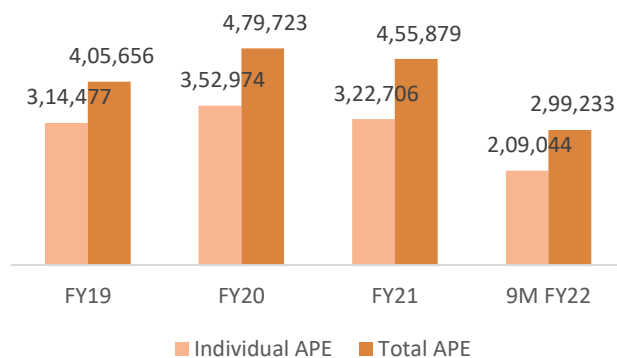
## Story in Charts

**Exhibit 13: Net premium trend (INR mn)**



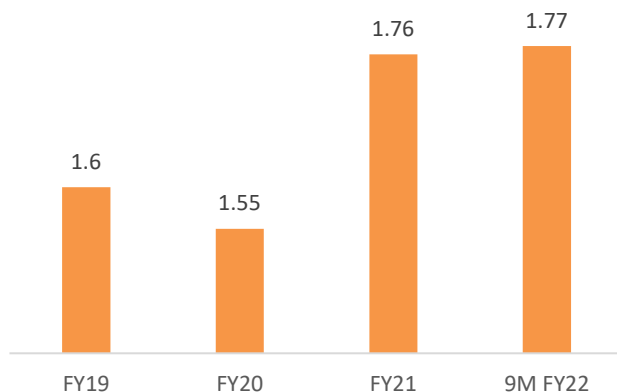
Source: RHP, MOFSL

**Exhibit 14: APE trend (INR mn)**



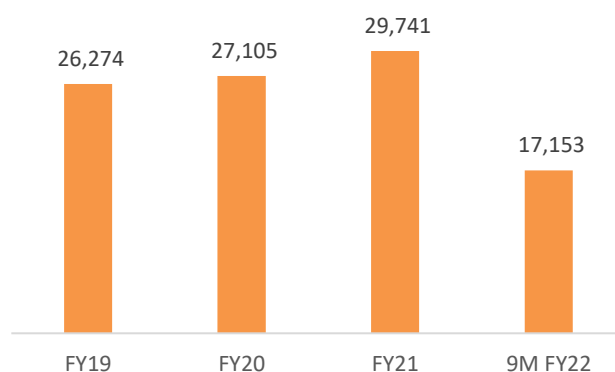
Source: RHP, MOFSL

**Exhibit 15: Solvency ratio (x)**



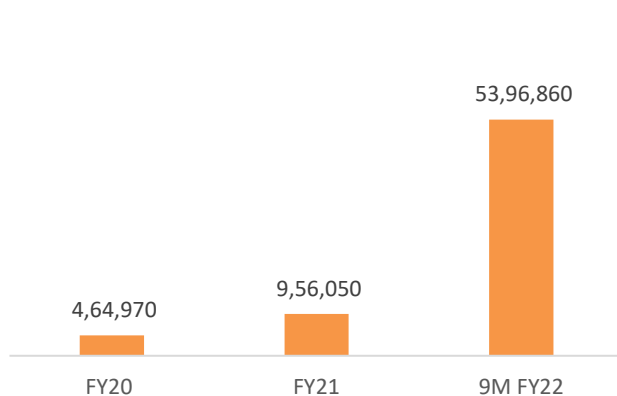
Source: RHP, MOFSL

**Exhibit 16: PAT (INR mn)**



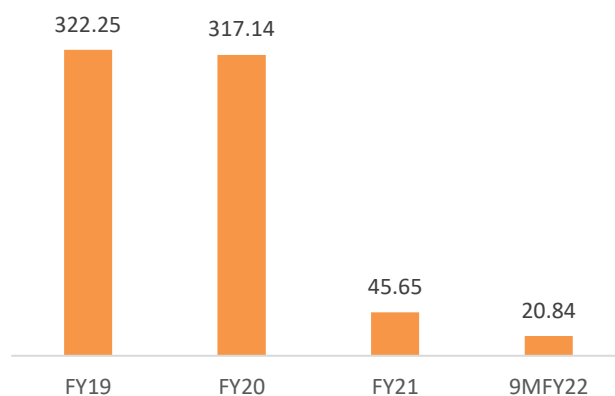
Source: RHP, MOFSL

**Exhibit 17: Embedded Value (INR mn)**



Source: RHP, MOFSL

**Exhibit 18: RoE (%)**



Source: RHP, MOFSL



## Financials

### Technical Account

(INR mn)

Y/E March	FY19	FY20	FY21	9M FY22
Net Premiums	33,99,716	38,24,755	40,53,985	28,53,419
Income from Investments	22,50,435	24,28,363	28,55,204	22,62,537
Other Income	57,944	2,02,936	1,27,905	6,835
<b>Total income (A)</b>	<b>57,08,096</b>	<b>64,56,055</b>	<b>70,37,094</b>	<b>51,22,792</b>
Commission	2,04,826	2,15,483	2,23,582	1,55,381
Operating expenses	3,74,229	6,78,180	4,58,420	1,92,612
<b>Total commission and opex</b>	<b>5,79,055</b>	<b>8,93,663</b>	<b>6,82,001</b>	<b>3,47,993</b>
Benefits Paid (Net)	25,23,808	25,54,795	28,84,891	23,46,199
Chg in reserves	24,59,306	28,91,949	32,38,060	23,34,286
Prov for doubtful debts	1,14,520	1,08,882	1,01,819	(2,135)
<b>Total expenses (B)</b>	<b>56,76,689</b>	<b>64,49,288</b>	<b>69,06,771</b>	<b>50,26,343</b>
<b>(A) - (B)</b>	<b>31,407</b>	<b>6,766</b>	<b>1,30,323</b>	<b>96,449</b>
Prov for Tax	55,568	1,08,256	91,705	80,021
<b>Surplus / Deficit</b>	<b>(24,161)</b>	<b>(1,01,489)</b>	<b>38,618</b>	<b>16,428</b>
Add: Sh. in profit in Associates	6,684	5,744	11,634	22,281
(Less)/Add: Minority Interest	25,162	63,727	(4,465)	(30)
<b>Total Surplus/Deficit</b>	<b>7,685</b>	<b>(32,018)</b>	<b>45,787</b>	<b>38,679</b>

Source: Company RHP, MOFSL

### Shareholder's a/c

(INR mn)

Y/E March	FY19	FY20	FY21	9M FY22
Transfer from technical a/c	25,995	26,955	29,626	16,378
Income From Investments	455	354	230	1,196
<b>Total Income</b>	<b>26,450</b>	<b>27,310</b>	<b>29,856</b>	<b>17,573</b>
Total Expenses	4	63	5	4
<b>PBT</b>	<b>26,424</b>	<b>27,185</b>	<b>29,803</b>	<b>17,570</b>
Prov for Tax	150	80	62	417
<b>PAT</b>	<b>26,274</b>	<b>27,105</b>	<b>29,741</b>	<b>17,153</b>

Source: Company RHP, MOFSL

### Persistency Ratio

(% )

Y/E March	FY19	FY20	FY21	9M FY22
13th Month	77.0%	72.0%	79.0%	76.8%
25th Month	71.0%	67.0%	70.0%	71.7%
37th Month	65.0%	63.0%	67.0%	67.8%
49th Month	60.0%	58.0%	63.0%	65.0%
61st Month	63.0%	54.0%	59.0%	61.9%

Source: Company RHP, MOFSL

## Balance Sheet

(INR mn)

Y/E March	FY19	FY20	FY21	9M FY22
<b>Sources of Fund</b>				
Share Capital	1,000	1,000	1,000	63,250
Reserves And Surplus	7,984	8,917	67,055	24,986
fair Value Change Account	(888)	102	785	1,408
Minority Interest	878	963	993	1,019
<b>Shareholders' Fund</b>	<b>8,974</b>	<b>10,981</b>	<b>69,832</b>	<b>90,663</b>
Borrowings	26,94,006	25,34,136	37	37
Policyholders' fund	24,86,793	2,42,834	28,57,280	39,71,130
Policy Liabilities	2,80,56,931	3,10,28,155	3,42,07,270	3,66,00,694
Prov. for Linked Liab.	4,16,509	3,25,353	3,29,592	2,34,274
Funds For Future App.	133	287	33	11,070
Current liabilities & prov.	6,09,146	8,56,595	831196.88	6,80,623
<b>Total</b>	<b>3,42,72,492</b>	<b>3,49,98,341</b>	<b>3,82,95,241</b>	<b>4,15,88,491</b>
<b>Application of Funds</b>				
Shareholders' inv	3,694	4,008	4,264	51,867
Policyholders' inv	2,87,76,867	2,95,79,078	3,49,84,407	3,84,36,173
Assets to cover linked liab.	3,35,669	3,21,699	3,29,750	2,34,670
Loans	24,98,803	23,74,347	10,87,637	11,11,411
Fixed Assets	1,45,676	1,45,718	34,740	34,631
Current assets	25,11,784	25,73,491	18,54,444	17,19,738
<b>Total</b>	<b>3,42,72,492</b>	<b>3,49,98,341</b>	<b>3,82,95,242</b>	<b>4,15,88,491</b>

Source: Company RHP, MOFSL

## Key Ratios

Y/E March	FY19	FY20	FY21	9M FY22
<b>Operating Ratios</b>				
Investment yield	7.6%	7.5%	7.4%	7.3%
Commissions / GWP	5.9%	5.6%	5.5%	5.4%
Total op. expense ratio	8.4%	9.0%	8.7%	9.6%
Claims / NWP	74.2%	66.8%	71.2%	82.2%
Solvency ratio	160%	155%	176%	177%
<b>Valuation (x)</b>				
Total AUMs (INR bn)	29,879	30,744	36,762	40,122
EPS (Rs)	4.3	4.3	4.6	2.7
VNB (INRmn)	-	-	41,670	15,830
Embedded Value (INR bn)	-	465	956	5,397
VBN Margin (%)	-	-	9.9	9.3
Mcap/EV (x)	NA	12.9	6.3	1.1
<b>Return Ratios (%)</b>				
ROE	322.3%	317.1%	45.7%	20.8

Source: Company RHP, MOFSL

\*All ratios calculated at the upper price band of INR949

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< -10%
NEUTRAL	> -10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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